

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Deduction for Educator Expenses

April 4, 2005

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

Department of Revenue

Analysis of S.F. 456 (Jungbauer)/ H.F. 770 (Abeler) **Analysis Revised to Clarify Explanation of Eligible Taxpayers and Number of Taxpayers Affected**

	<u>Fund Impact</u>			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
General Fund	(\$2,400)	\$0	\$0	\$0

Effective the day following final enactment for tax years 2004 and 2005.

EXPLANATION OF THE BILL

The bill would adopt the federal deduction for teacher classroom expenses for purposes of the Minnesota individual income tax. Section 307 of the federal Working Families Tax Relief Act of 2004, Public Law 108-311, allows an above-the-line deduction for tax years 2004 and 2005 of up to \$250 for classroom expenses paid or incurred by an eligible educator.

An eligible educator is an elementary or secondary teacher, instructor, counselor, principal, or aide. Eligible expenses include books, supplies, computer equipment, and other equipment.

Minnesota conformed to the federal deduction for classroom expenses which was in effect for tax years 2002 and 2003. The 2004 federal law change extended the deduction for two years.

REVENUE ANALYSIS DETAIL

- The estimates are based on the federal estimates for the Working Families Tax Relief Act of 2004 released by the Joint Committee on Taxation on September 23, 2004.
- The federal estimates were apportioned to Minnesota based on Minnesota's portion of elementary and secondary teachers, which was 1.9%.
- Appropriate federal and state marginal tax rates were applied.
- The estimates were converted from federal to state fiscal years. The estimate for fiscal year 2006 includes the impact of the retroactive effective date to tax year 2004.

REVENUE ANALYSIS DETAIL (Continued)

Number of Taxpayers: Preliminary sample information for tax year 2003 shows that the deduction for educator expenses was taken on about 59,000 Minnesota returns. The total number of eligible educators in public and private Minnesota elementary and secondary schools is between 75,000 and 80,000.

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