

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX K-12 Education Credit

February 3, 2005

Preliminary Analysis

Department of Revenue
Analysis of S.F. 558 (Ortman), As Proposed to be Amended

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

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 | (\$12,200) | (\$12,900) | (\$13,500) | (\$14,200) |

Effective beginning with tax year 2005.

EXPLANATION OF THE BILL

Minnesota income tax statutes allow taxpayers a refundable credit on their income tax returns for some school expenses for students in kindergarten through 12th grade. If an expense is not used for the credit, then the expense might possibly be used as a subtraction on the return. The statutes impose 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 both current law and the proposed 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. Under both current law and the proposal, expenses for religious materials and instruction are not eligible for the credit or for the subtraction. The proposed law authorizes additional expenses for the credit and eliminates some of the limits that are in current law. **As proposed to be amended**, the credit would begin to phase out at 185% of the federal poverty guidelines instead of at 250% of the guidelines.

The following list is a summary of the changes that would occur under the proposed law:

| | <u>Current Law</u> | <u>Proposed Law</u> |
|-----------------------------------|--|---|
| Tuition expense eligibility | Subtraction only | Credit and subtraction |
| Maximum credit | \$1,000 per child, \$2,000 per family | \$1,000 per child, No family limit |
| Beginning credit phase out income | \$33,500 | 185% of the federal poverty guidelines |
| Maximum income for credit | \$37,500 | \$4,000 plus 250% of the federal poverty guidelines |

Note: The federal poverty guidelines are based on family size. Therefore, it appears that the maximum income for the credit would vary with size of family. For a family of two or three, it was estimated that, for 2005, the maximum income under the proposal would be lower than under current law by about \$10,000 and \$4,000 respectively.

REVENUE ANALYSIS DETAIL

- This preliminary analysis is based on information developed for the 2004 revenue analysis for H.F. 2772 (Knoblach) / S.F. 2702 (Ortman). Adjustments were made for the differences between the current bill and last year's bill.
- An estimate for 185% of the 2005 federal poverty guideline was made for a family of four. The family of four estimate of \$35,575 was used in making the adjustment.
- 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:

A total of 61,300 returns claimed the K-12 education credit for tax year 2003. The number of returns that would claim the credit for tuition expenses and the change in number of claimants due to the change in the maximum income were not estimated for this preliminary analysis.

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