

MINNESOTA • REVENUE

INDIVIDUAL INCOME TAX Postsecondary Tuition Tax Credit

April 19, 2005

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

Department of Revenue
Analysis of S.F. 1888 (Pappas) / H.F. 2049 (Carlson)

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	(\$5,810)	(\$16,110)	(\$20,760)	(\$21,180)

Effective beginning with tax year 2005.

EXPLANATION OF THE BILL

This proposal would provide a refundable income tax credit for tuition and fees paid to a Minnesota postsecondary institution for the enrollment of a Minnesota resident who graduated from a Minnesota high school or received a Minnesota general education development diploma in 2005 or later. The credit can be taken only for students in their first two years of postsecondary education. The student may be the taxpayer, the taxpayer's spouse, or dependent and must be enrolled full time.

The student's eligible tuition and fees would be reduced by refunds of tuition and fees from the institution and by the amount of a federal Hope or Lifetime Learning tax credit.

The credit would be a maximum of \$500 per student. For single taxpayers, the credit would be reduced by 10% for every \$500 of federal adjusted gross income that exceeds \$25,000. For married taxpayers, the credit would be reduced by 10% for every \$1,000 of federal adjusted gross income that exceeds \$50,000.

REVENUE ANALYSIS DETAIL

- According to the Minnesota Higher Education Services Office (MHESO), in 2003 there were approximately 234,000 Minnesota residents enrolled as undergraduates in Minnesota institutions.
- According to MHESO, 69% of undergraduates are enrolled full-time. According to the National Center for Education Statistics (NCES), 59.4% of undergraduate students are in the first two years of postsecondary education.
- According to NCES, in 1998 approximately 65% of full-time undergraduates in the first two years of postsecondary education met the income criteria to receive this credit. Due to rising incomes, it is assumed that 50% would now be eligible.
- An average credit amount of \$400 and a growth rate of 2% are used for this analysis.

REVENUE ANALYSIS DETAIL (Continued)

- TY 2005 and TY 2006 were adjusted to account for those who graduated from high school before 2005. In TY 2005, only the fall semesters of college freshmen who graduated in 2005 are eligible. In TY 2006, the spring and fall semesters of 2005 graduates and the fall semester of 2006 graduates are eligible.
- Tax year impact is allocated to the following fiscal year.

Number of Taxpayers: There are an estimated 48,000 students eligible for this credit.

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